



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 305, STATE HOUSE, PROVIDENCE, RI 02903

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To: The Honorable Lincoln D. Chafee, Governor
The Honorable Gordon D. Fox, Speaker of the House
The Honorable M. Teresa Paiva Weed, President of the Senate

From: Sharon Reynolds Ferland, House Fiscal Advisor
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Date: November 14, 2013

Subject: **November 2013 Revenue Estimating Conference**

Summary

The Revenue Estimating Conference met on November 1st, 4th, and 8th, 2013, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years 2014 to 2019, and issued a revised estimate for FY 2014 and a first estimate of FY 2015 revenues. Based on collection trends, preliminary closing results, and the revised economic forecast, the Conference increased the FY 2014 estimates by \$45.6 million from the FY 2014 Budget as Enacted amount, to a total of \$3,426.7 million.

The Conference estimated FY 2015 revenues at \$3,338.5 million. That is \$88.2 million less than the revised Conference estimates for FY 2014 but does not include the hospital license fee. The hospital license fee accounts for \$141.3 million in FY 2014 that cannot be included in FY 2015 because it is enacted annually, and revenue estimates may only be based upon current law.

Tables showing the estimates and the changes by revenue component are included at the end of this report.

Economic Forecast

On November 1, the Conference heard forecasts for the national and Rhode Island economies from Mr. Chris Lafakis, senior economist with Moody's Analytics, and received testimony from Ms. Donna Murray, Assistant Director Labor Market Information, of the Department of Labor and Training. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the following table.

Nov 2013 Consensus Economic Forecast									
Annual Growth	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Nonfarm Employment (000's)	461.5	465.3	467.7	474.0	485.0	494.7	499.6	500.6	500.3
Nonfarm Employment Growth	0.5	0.8	0.5	1.3	2.3	2.0	1.0	0.2	-0.1
Personal Income (bil.)	\$46,881.3	\$48,184.5	\$49,548.1	\$52,111.8	\$55,623.9	\$58,897.3	\$ 61,667.4	\$63,912.9	\$66,298.7
Personal Income Growth	3.6	2.8	2.8	5.2	6.7	5.9	4.7	3.6	3.7
Wage and Salaries Income	2.9	2.7	3.9	5.2	7.2	6.4	5.1	3.7	3.4
Dividends, Interest and Rent	6.3	6.1	4.4	7.7	9.4	7.9	5.3	3.2	3.5
Rates									
Unemployment Rate	11.2	10.4	9.1	8.3	7.2	6.1	5.5	5.5	5.5
Consumer Price Index (US)	3.1	2.1	1.5	1.8	2.1	2.4	2.5	2.3	2.2
Ten Year Treasuries	2.8	1.8	2.4	3.3	4.1	5.0	4.8	4.7	4.7
Three Month Treasuries	0.1	0.1	0.1	0.1	0.3	2.0	3.2	3.5	3.6
Annual Growth	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Nonfarm Employment	460.3	463.7	466.1	470.1	479.3	490.4	497.8	500.4	500.6
Nonfarm Employment Growth	0.6	0.7	0.5	0.9	1.9	2.3	1.5	0.5	0.0
Personal Income (bil.)	\$46,223.7	\$47,381.1	\$48,869.1	\$50,662.5	\$53,858.0	\$57,306.1	\$ 60,383.0	\$62,783.1	\$65,095.3
Personal Income Growth	4.4	2.5	3.1	3.7	6.3	6.4	5.4	4.0	3.7
Wage and Salaries Income	3.6	2.6	3.1	4.2	6.7	7.0	5.8	4.3	3.5
Dividends, Interest and Rent	5.8	5.5	5.8	5.7	9.0	8.5	7.0	3.8	3.2
Rates									
Unemployment Rate	11.4	10.9	9.7	8.8	7.7	6.6	5.7	5.4	5.5
Consumer Price Index (US)	2.0	2.9	1.7	1.5	2.0	2.3	2.5	2.4	2.3
Ten Year Treasuries	3.1	2.1	1.8	2.9	3.7	4.7	5.0	4.7	4.7
Three Month Treasuries	0.1	0.0	0.1	0.1	0.1	1.0	2.8	3.4	3.6

Moody's Analytics reports that on July 18th, 2013, it adjusted its U.S. government outlook from negative to stable and reaffirmed its AAA rating of government debt. The October 1st through 16th federal government shutdown did not impact the overall government outlook and was largely ignored by the securities market. However, the loss in confidence held by consumers and industry took a real toll on gross domestic product and on the national economy overall. Rather than increasing in pace, as previously anticipated, economic growth is predicted to remain around two percent for the fourth quarter of calendar year 2013. Import and export markets were slowed during and after the shutdown. The housing market, which was anticipated to be a driver of job creation, also slowed. Consumer surveys indicate less will be spent during the holiday season than was anticipated, negatively impacting seasonal job growth.

The government shutdown also prevented the release of September job numbers by the Bureau of Labor Statistics. But the overall forecast is more pessimistic than that provided in May of this year, which was itself a pessimistic revision to the November 2012 forecast. In the near term, personal income is higher based on revised base numbers, but employment growth and wage and salary income growth are both projected to slow from the May estimates.

The table below shows the difference from the May forecast.

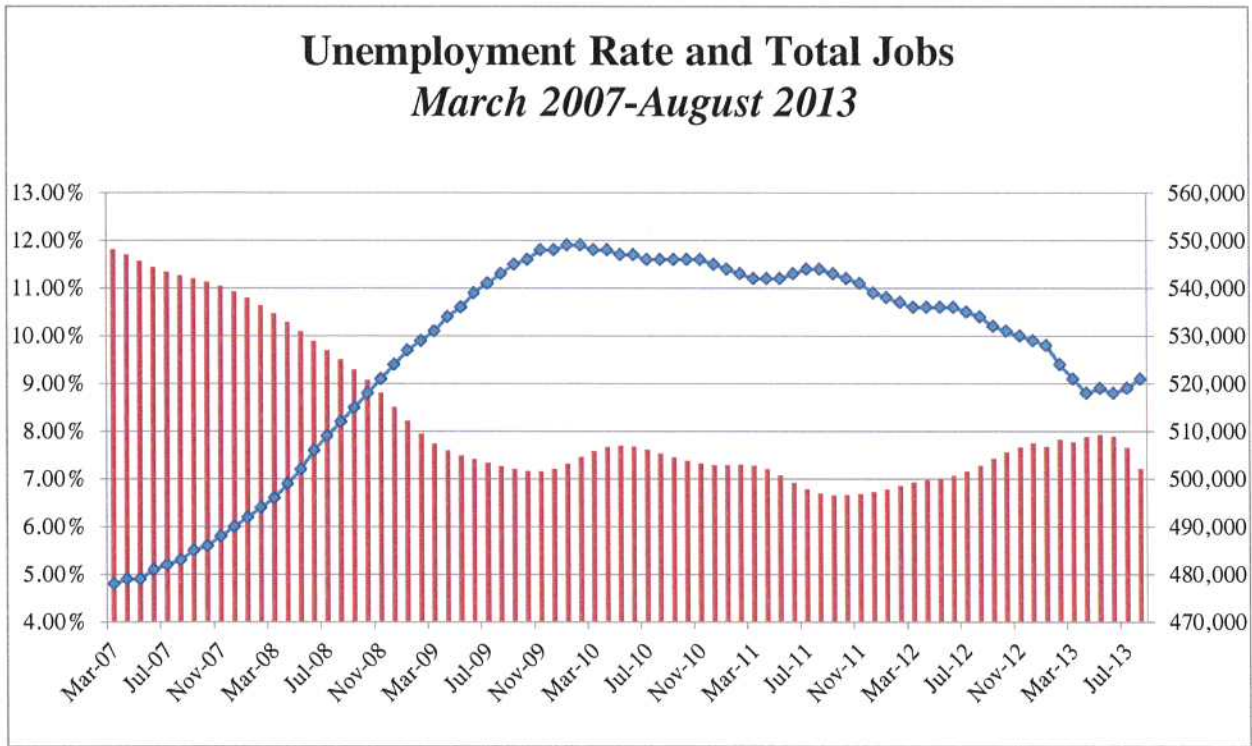
Nov 2013 Forecast Change to May 2013									
Annual Growth	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Nonfarm Employment (000's)	0.0	0.0	0.0	-0.8	-0.9	-1.7	-3.3	-4.6	-5.4
Nonfarm Employment Growth	0.0	0.0	0.0	-0.2	0.0	-0.2	-0.3	-0.2	-0.2
Personal Income (bil.)	\$1,060.6	\$756.0	\$931.5	\$1,260.0	\$1,078.3	\$1,078.0	\$823.9	\$653.1	\$469.6
Personal Income Growth	0.4	-0.8	0.3	0.6	-0.5	-0.1	-0.6	-0.4	-0.3
Wage and Salaries Income	-0.1	0.2	1.2	0.5	-0.5	0.1	-0.8	-0.8	-0.5
Dividends, Interest and Rent	0.2	-2.2	0.6	3.2	0.3	-2.2	-1.9	-0.1	-0.4
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.0	0.0	0.0	-0.2	0.1	0.3	0.1	0.1	0.2
Consumer Price Index (US)	0.0	0.0	0.0	-0.5	-0.4	-0.2	-0.1	0.1	-0.1
Ten Year Treasuries	0.0	0.0	0.0	0.2	0.1	-0.1	0.0	0.2	0.1
Three Month Treasuries	0.0	0.0	0.0	-0.1	-0.2	-1.1	-1.3	-0.6	-0.1
Annual Growth	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Nonfarm Employment	0.0	0.0	0.0	-0.3	-0.9	-1.2	-2.4	-4.1	-4.9
Nonfarm Employment Growth	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.3	-0.3	-0.2
Personal Income (bil.)	\$1,048.7	\$909.7	\$760.9	\$1,272.4	\$1,120.9	\$1,104.4	\$947.3	\$724.5	\$578.2
Personal Income Growth	1.7	-0.4	-0.4	1.1	-0.4	-0.2	-0.4	-0.5	-0.3
Wage and Salaries Income	-0.2	0.1	0.8	1.3	-0.8	0.2	-0.4	-0.9	-0.6
Dividends, Interest and Rent	6.6	-1.5	-1.0	1.5	3.0	-1.8	-2.4	-0.8	-0.1
Rates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment Rate	0.0	0.0	0.0	-0.1	0.0	0.2	0.2	0.1	0.2
Consumer Price Index (US)	0.0	0.0	0.0	-0.1	-0.4	-0.3	-0.2	0.0	0.0
Ten Year Treasuries	0.0	0.0	0.0	0.0	0.3	0.1	0.0	0.1	0.1
Three Month Treasuries	0.0	0.0	0.0	0.0	-0.2	-0.4	-1.3	-0.9	-0.3

Testimony highlighted the sluggish nature of job creation in the state. While the country as a whole has recouped 68.6 percent of the jobs lost in the Great Recession, Rhode Island has recouped less than 30 percent. Job creation has grown at 0.5 percent to 1.0 percent, year over year. Full recovery of the labor market is not expected before the end of calendar year 2018.

Rhode Island began losing jobs in February 2007, predating national losses by 10 months. Nonfarm employment reached its low point in 2010, with 47,900 peak-to-trough job losses, and the recovery since has been restrained. The Department of Labor and Training reported that after peaking at 11.9 percent in January 2009 and February 2010, the state's unemployment rate steadily declined to a reported 8.8 percent in April 2013. The total labor force of 552,232 in August 2013 is at its lowest point in more than a decade.

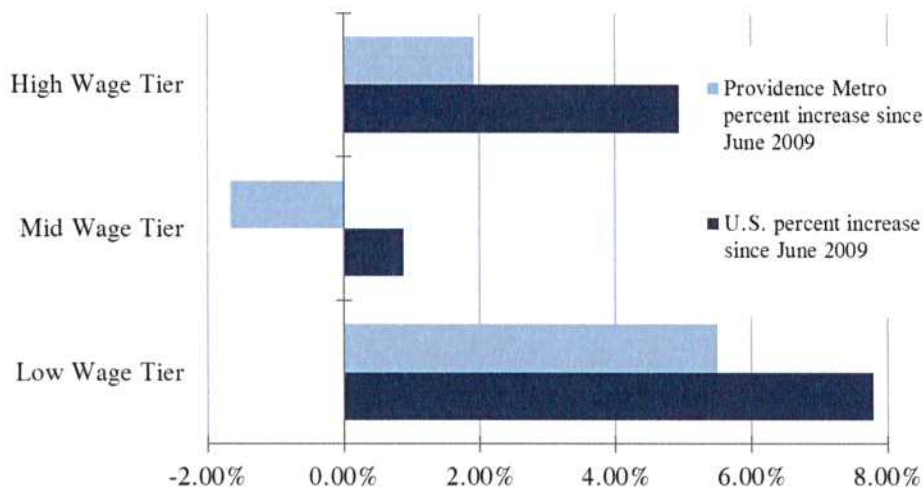
It should be noted that the unemployment rate has fluctuated between 9.1 percent and 8.8 percent from March through August of this year. As job creation has slowed, it appears that the lack of hiring, not layoffs, accounts for the increase in the unemployment percentage.

The following graphic shows unemployment rates from March 2007 through August 2013 along with total jobs for the same period.



Also significant in the state’s slow recovery is that the majority of jobs recovered have been in low-wage industries. The state is shifting away from a manufacturing-based economy to a service-oriented economy and service industry jobs account for a large portion of the growth from the fourth quarter of calendar year 2012 to date. While recovery of mid-wage jobs continues to lag recovery of low-wage and high-wage jobs nationally, Rhode Island has lost more mid-wage jobs in its recovery to date than during the recession.

The following table, provided by Moody’s as part of its testimony, shows the percentage of job growth in each wage tier from June 2009 through August 2013.



It is not anticipated that the construction and manufacturing industries will recover pre-recession employment figures. Both businesses and households have significantly deleveraged throughout the recovery period; consumers are ready to take on new debt. Businesses have never been more profitable, and have downsized to the point where any potential growth will require capital investment. Banks are also in a better position to lend, having divested their bad debt and loosening some of the restrictions associated with new lending. It appears that political uncertainty, both with regard to tax policy and government spending, is preventing the level of investments needed for significant economic growth.

Moody's anticipates a revision to sequestration cuts in the next round of federal budget negotiations, lessening the risk of additional cuts to federal spending for defense and social programs. However, fiscal austerity has already had a negative impact on the Rhode Island economy, comparatively more than other states. Federal aid program payments average \$7,000 per person in the state; this is \$1,100 higher than the national average. The state's overall reliance on defense spending contracts per capita is only \$951, compared to a national average of \$1,601, but procurement contracts account for 3.5 percent of the Providence metro region's gross domestic product compared to a national average of 2.2 percent.

Positively impacting the forecast is employment growth in the government sector, over 700 jobs in 2013. As the state's economy improves, government sector jobs are anticipated to continue to be added as are those for the financial services sector and health and education. Manufacturing experienced a net gain of 500 jobs over the past two years. It should be noted, however, that this sector lost 200 jobs in 2013, apparently in response to the European market crisis.

Revenues

Taxes. Revenues from taxes are estimated to increase 3.0 percent in FY 2014 from preliminary FY 2013 collections and increase by 2.4 percent in FY 2015 over the revised FY 2014 estimate. Total estimated taxes for FY 2014 of \$2,654.0 million are \$31.0 million above the enacted estimate for total taxes. FY 2015 total estimated taxes are \$2,717.8 million, \$63.8 million above the revised FY 2014 estimate.

Personal Income Tax. The estimates of \$1,120.7 million for FY 2014 and \$1,153.9 million for FY 2015 represent unadjusted year over year growth rates of 3.2 percent and 3.0 percent, respectively. The FY 2014 estimate is \$11.5 million more than enacted, reflecting a downward revision to withholding receipts offset by a net increase in other components, driven largely by lower refunds. The FY 2015 estimate is \$33.2 million more than the FY 2014 revised estimate.

Business Taxes. The Conference estimates total business taxes of \$382.3 million in FY 2014 and \$391.1 million in FY 2015. Year over year growth rates are 0.3 percent and 2.3 percent respectively. The FY 2014 estimate is \$2.1 million less than enacted while the FY 2015 estimate is \$8.8 million more than the revised estimate. The business corporations tax was

\$5.3 million lower in FY 2014 than enacted, but still \$4.2 million above FY 2013 preliminary collections. The FY 2015 estimate for business corporations tax is \$2.8 million below the revised FY 2014 estimate; while it reflects significant base growth, it also recognizes the near term negative impact of the recent alignment of state asset depreciation rules to the federal standard.

Sales and Use Taxes. The Conferees estimate sales and use tax revenues of \$904.0 million in FY 2014 and \$930.6 million in FY 2015. The FY 2014 revenues are \$16.8 million above the enacted estimate and represent growth of \$25.1 million or 2.9 percent from preliminary actual FY 2013 receipts. The FY 2015 estimate is \$26.6 million, or 2.9 percent, above the revised FY 2014 estimate.

Excise Taxes Other Than Sales and Use Taxes. The Conferees estimated \$206.0 million for FY 2014 and \$200.9 million for FY 2015 from excise taxes other than sales and use taxes. These taxes include motor vehicle license and registration fees, cigarettes taxes, and alcohol taxes. The FY 2014 estimate is \$4.3 million more than enacted and \$11.4 million more than FY 2013 preliminary receipts. The increase to the enacted reflects the projection of \$5.6 million more in cigarette tax receipts offset by downward adjustments to motor vehicle fees. The change to FY 2013 receipts mostly relates to a temporary increase in alcohol taxes set to expire during FY 2015. The FY 2015 estimate is \$5.1 million less than the revised estimate for FY 2014, largely reflecting annual declines in cigarette tax receipts and the expiration of the alcohol tax changes.

Other Taxes. The inheritance, racing and athletics, and realty transfer taxes are estimated to produce \$41.0 million in FY 2014 and \$41.3 million in FY 2015. The FY 2014 estimate is \$0.5 million more than enacted from an upward revision to realty transfer taxes. The FY 2015 estimate for total other taxes is \$0.3 million more than the revised FY 2014 estimate.

Departmental Receipts. The estimators adopted estimates of \$360.1 million for FY 2014 and \$208.2 million for FY 2015 for these sources that include licenses and fees, fines and penalties, sales and services, and miscellaneous departmental receipts that are deposited as general revenues. The FY 2014 estimate is \$11.4 million more than FY 2013 preliminary collections, nearly all of which is attributable to belated collections of hospital license fees that had been expected in FY 2013.

The FY 2015 estimate is \$151.9 million less than the revised FY 2014 estimate. FY 2015 drops off mainly due to the end of the hospital license fee, which produces \$141.3 million in FY 2014. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is enacted for FY 2015.

Lottery Transfer. Lottery revenues are estimated to produce \$394.2 million in FY 2014 with \$319.7 million from video lottery terminals installed at Twin River and Newport Grand, \$10.4 million from Twin River's table games, and \$64.1 million from traditional games, which includes PowerBall, Mega Million, scratch tickets, and Keno. The estimated transfer is

\$399.9 million in FY 2015, with \$323.3 million from video lottery terminals, \$11.4 million from table games and \$65.2 million from traditional lottery games. Year over year growth is 3.9 percent for FY 2014 and 1.4 percent for FY 2015.

The estimators determine the state share of video lottery net terminal income at both Twin River and Newport Grand. For FY 2014, the conferees project a state share of \$293.3 million based on total net terminal income of \$483.1 million at Twin River. At Newport Grand, the state expects to receive \$26.4 million from the generation of \$44.4 million in net terminal income. For FY 2015, Twin River is projected to provide the state with \$298.8 million from the \$492.0 million of net terminal income generated while Newport Grand is expected to transfer \$24.5 million from the \$41.3 million of net terminal income it generates. Year over year transfers are projected to be \$5.5 million higher at Twin River and \$1.9 million lower at Newport Grand.

The state share of revenues from table games reflect estimates that total revenues will be \$82.0 million and \$88.0 million in FY 2014 and FY 2015, respectively. The state's direct regulatory expenses are deducted from its 18 percent share of the total, and the balance is transferred to general revenues.

The estimates reflect legislation adopted by the 2013 Assembly and signed into law by the Governor and include temporarily increasing Newport Grand's share of net terminal income by 2.25 percent from 27.8 percent for FY 2014 and FY 2015.

Also, the estimators did not include an explicit impact in either FY 2014 or FY 2015 from the future opening, in as yet undetermined locations, of a slot parlor and up to three resort casinos in Massachusetts. The bidding and selection process is underway and it is possible that the slot parlor could be open in time to potentially affect FY 2015 revenues, but with too many unknown variables, no impact was included. The FY 2015 estimates do reflect minimal growth in response to the uncertain environment.

Other Sources. Other source revenue consists of transfers to the General Revenue fund from, unclaimed property, and other miscellaneous sources. These are estimated to produce \$18.4 million in FY 2014 and \$12.6 million in FY 2015. The FY 2015 decline is primarily due to a decrease in other miscellaneous revenue sources for non-recurring revenue.

Next Meeting

The next required meeting of the conference is May 2014.

Revenue Comparisons - FY 2014

FY 2014	FY 2013	Enacted	Consensus	Difference from Enacted	
Personal Income Tax	\$ 1,085,765,261	\$ 1,109,154,500	\$ 1,120,700,000	1.0%	\$ 11,545,500
General Business Taxes					
Business Corporations	131,827,907	141,300,000	136,000,000	-3.8%	(5,300,000)
Public Utilities Gross	99,640,815	94,900,000	95,900,000	1.1%	1,000,000
Financial Institutions	12,594,921	4,300,000	4,300,000	0.0%	-
Insurance Companies	92,744,945	98,815,832	100,600,000	1.8%	1,784,168
Bank Deposits	2,877,325	2,500,000	2,900,000	16.0%	400,000
Health Care Provider	41,568,589	42,610,544	42,600,000	0.0%	(10,544)
Sales and Use Taxes					
Sales and Use	878,866,074	887,201,672	904,000,000	1.9%	16,798,328
Motor Vehicle	49,431,495	51,800,000	50,800,000	-1.9%	(1,000,000)
Motor Fuel	438,255	1,000,000	700,000	-30.0%	(300,000)
Cigarettes	132,516,310	130,700,000	136,300,000	4.3%	5,600,000
Alcohol	12,176,109	18,173,328	18,200,000	0.1%	26,672
Other Taxes					
Inheritance and Gift	28,489,275	31,800,000	31,800,000	0.0%	-
Racing and Athletics	1,171,108	1,200,000	1,200,000	0.0%	-
Realty Transfer	7,399,222	7,500,000	8,000,000	6.7%	500,000
Total Taxes	\$ 2,577,507,611	\$ 2,622,955,876	\$ 2,654,000,000	1.2%	\$ 31,044,124
Departmental Receipts	348,703,847	348,707,542	360,100,000	3.3%	11,392,458
Other Miscellaneous	4,166,213	5,545,000	7,455,000	34.4%	1,910,000
Lottery	379,224,715	394,100,000	394,200,000	0.0%	100,000
Unclaimed Property	6,268,627	9,700,000	10,900,000	12.4%	1,200,000
Total General Revenues	\$ 3,315,871,014	\$ 3,381,008,418	\$ 3,426,655,000	1.4%	\$ 45,646,582

Revenue Comparisons - FY 2015

FY 2015	FY 2014 November		Difference from FY 2013 Preliminary	Consensus		Difference from FY 2014 Consensus
Personal Income Tax	\$ 1,120,700,000	3.2%	\$ 34,934,739	\$ 1,153,900,000	3.0%	\$ 33,200,000
General Business Taxes						
Business Corporations	136,000,000	3.2%	4,172,093	133,200,000	-2.1%	(2,800,000)
Public Utilities Gross	95,900,000	-3.8%	(3,740,815)	97,500,000	1.7%	1,600,000
Financial Institutions	4,300,000	-65.9%	(8,294,921)	4,500,000	4.7%	200,000
Insurance Companies	100,600,000	8.5%	7,855,055	108,700,000	8.1%	8,100,000
Bank Deposits	2,900,000	0.8%	22,675	2,900,000	0.0%	-
Health Care Provider	42,600,000	2.5%	1,031,411	44,300,000	4.0%	1,700,000
Sales and Use Taxes						-
Sales and Use	904,000,000	2.9%	25,133,926	930,600,000	2.9%	26,600,000
Motor Vehicle	50,800,000	2.8%	1,368,505	50,800,000	0.0%	-
Motor Fuel	700,000	59.7%	261,745	700,000	0.0%	-
Cigarettes	136,300,000	2.9%	3,783,690	132,400,000	-2.9%	(3,900,000)
Alcohol	18,200,000	49.5%	6,023,891	17,000,000	-6.6%	(1,200,000)
Other Taxes						-
Inheritance and Gift	31,800,000	11.6%	3,310,725	31,800,000	0.0%	-
Racing and Athletics	1,200,000	2.5%	28,892	1,100,000	-8.3%	(100,000)
Realty Transfer	8,000,000	8.1%	600,778	8,400,000	5.0%	400,000
Total Taxes	\$ 2,654,000,000	3.0%	\$ 76,492,389	\$ 2,717,800,000	2.4%	\$ 63,800,000
Departmental Receipts	360,100,000	3.3%	11,396,153	208,200,000	-42.2%	(151,900,000)
Other Miscellaneous	7,455,000	78.9%	3,288,787	2,475,000	-66.8%	(4,980,000)
Lottery	394,200,000	3.9%	14,975,285	399,900,000	1.4%	5,700,000
Unclaimed Property	10,900,000	73.9%	4,631,373	10,100,000	-7.3%	(800,000)
Total General Revenues	\$ 3,426,655,000	3.3%	\$ 110,783,986	\$ 3,338,475,000	-2.6%	\$ (88,180,000)